

6
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Soviet Military Spending: Assessing the Numbers Game

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Because it is impossible to add tanks and planes, strategic forces and tactical forces, men and missiles without the use of money, total military expenditures have become the most generally-used indicator of overall military effort and effectiveness. So, for example, President Reagan launched his case for increased military spending in his February 1981 State of the Union Message with the statement: "Since 1970 the Soviet Union has invested \$300 billion more in its military forces than we have." Further, Americans regularly read in the news media that the Soviet Union outspent us on defense last year by 50 percent.

These figures were estimated by the CIA. The CIA also tells us that the Soviet Union is spending 12-14 percent of its GNP in comparison with America's 5-6 percent and that Soviet military expenditures have been growing faster than those of the United States over the past decade. One need not feel that these types of estimates are very good grounds upon which to base U.S. military planning in order to concede that they have an important impact on U.S. policies.

Because the Soviet Union does not publish reliable information on its defense spending, the CIA's procedure is to estimate, by hook or crook, the quantities of men, tanks, missiles, ammunition, and so forth of everything purchased each year by the Ministry of Defense. These items are then valued in dollar or ruble prices, as the case may be. In these exercises, the CIA encounters many problems, the solutions to which have not always been acceptable to its critics. A major problem—the so-called index number problem—is a case in point, and is the subject of this article.

Representatives of the CIA, both orally and in print, have attempted to rebut the argument, presented in *International Security*,¹ that the Agency's published estimates significantly understate the index number effects and thereby overstate Soviet military expenditures relative to those of the United States. No one, to my knowledge, has even considered the impact of index number considerations on the CIA's ratio of Soviet military expenditures to GNP (ME/GNP) or on the rate of growth of Soviet military expenditures themselves.

In what follows, I will explain first, by means of a simple example, the nature of index number effects for those who are unfamiliar with the concept. Then, an attempt will be made to deal with the contentions of the CIA and others who minimize the relevance of index number effects to the Soviet-American military expenditure comparison. Further, I will advance the argument that the factors which overstate Soviet military expenditures relative to those of the United States also may cause an overstatement of the percentage of Soviet military expenditures to GNP. Finally, I will examine the effects of index number considerations on the growth of Soviet military expenditures (ME).